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## HOW THE PUBLIC SHOULD PAY FOR THE WAR

BY IRVING FISHER,

Yale University.

There are many popular fallacies as to the ultimate source of funds for paying for the war. In the first place, there is the "business as usual" fallacy, one which is fostered today by propaganda on the part of those special interests that do not wish to retire in favor of the public interest. It is perfectly natural that a manufacturer or vendor of superfluities should in a time of war resist sacrificing his business, especially if others around him lack patriotism and set him a bad example, but it really makes my blood boil to see the efforts that some of the big interests in this country, that I might mention by name, are making to befuddle the public on this subject by telling them that the way to finance this war is to keep their business going so that they can subscribe to liberty bonds. In other words, if we pay them \$100 they will pay \$5 to the government. Of course if we paid our \$100 to the government in the first place the government would be \$95 better off than if we support somebody in order that he may subscribe.

There are two ways in which we subscribe to liberty bonds, or two ways in which we pay our taxes. One is the right way and the other is the wrong way. The right way of subscribing to the liberty bonds is to sacrifice in some other expenditure in order to buy them. If, for instance, we give up the purchase of a pleasure automobile and put the same sum that we would otherwise have put into the purchase of that automobile into the purchase of a liberty bond, we have done our duty in the full sense of the word, because we have not only given Uncle Sam the funds but we have gotten out of his way in industry, and the same labor and capital which would have made my pleasure car will make a motor truck. But if we decide that we will not give up that pleasure car and at the same time think that we can be patriotic without any sacrifice, and subscribe to liberty bonds by going to the bank and saying, "Here, I have not got the money; I am not willing to give up my pleasure car but if you will lend me the money I will lend it to Uncle Sam;" if, in other

words, we lend by borrowing, we cheat ourselves by the thought that we are really helping to finance the war. In a sense we are, and if there is no better way we must do some borrowing in order to lend. If, however, we do this without any thought of sacrificing from our consumption, without any thought even of paying up our debt at the bank afterward, by following our subscription by saving if the subscription has not been preceded by saving, we are doing very wrong. And if we comfort ourselves with the thought that, as the advertisers say, we ought to encourage the making of pleasure cars and keep business as usual, we are guilty of a fallacy as well as a lack of patriotism.

The consequence of this act of subscribing to liberty bonds and at the same time not giving up our pleasure car is this: that when the government has the funds with which to buy the motor truck and attempts to buy it, it finds that the same labor and capital which ought to have been released to make that motor car, is busily engaged in making my pleasure car. In other words, while I go through the motions of giving over to the government some money, I refuse to get out of the government's way so that the government can get the actual goods, for, in the last analysis, money is merely a cover for goods, and the real sacrifices and the real payments are in terms of goods.

We are trying to provide the soldiers with food and guns and all the other necessary equipment, and in order that these things may be made the great energies of the nation, the productive energies of the nation must be shifted from a peace footing to a war footing. We must reduce the production of pleasure cars, reduce the production of jewelry, reduce the production of all non-essentials for war necessities, and be sure that we have enough energy to produce all that is needed for war. I strongly suspect that one reason why the amount requested for the third liberty loan was so surprisingly small was because we have not been able to devote the productive energies of the country sufficiently to produce fast enough the things for which we are subscribing. If we merely go through the motions of subscribing without really sacrificing, that is exactly where we shall land, and we shall be as helpless as Robinson Crusoe, who found a great store of gold but did not have anything to purchase with it.

When we do that, when we borrow at the banks to lend to the government, the banks merely write on their books a deposit cor-

responding to our loan. They credit us with a certain amount of money (which is not money but merely a credit), and then we transfer that credit to the government and the government has it, and then the government transfers it to the maker of the motor truck or whatever it wants to spend the money for,—so-called money,—and we have merely created more purchasing power by writing our loan as a credit on the books of the banks; we have really created more purchasing power without creating anything to purchase with that power, so the total volume of goods is the same, not changed even in quality. And when we increase purchasing power in terms of money over goods but do not increase the goods which we are going to purchase, naturally we have a displacement. We have an abundance of purchasing power but a scarcity of things to purchase, so that the price goes up.

The ultimate effect then is a rise of prices, and a large part of the rise of prices which has mystified many people during the war is due to precisely this inflation. It is going on abroad. All the nations of Europe, not excepting England, have been inflating. The issuing of paper money is one way of financing the war, but England has used another way, that just mentioned, of bank deposit inflation. In either case there is an inflation of money or a substitute for money, and prices rise.

The price level in this country rose the moment gold was expelled from Europe and came here. Thus before we entered the war we had been suffering from gold inflation—by gold overflowing from the warring countries into the neutral countries. All the neutral countries suffered from gold inflation—not only the United States but Spain and Sweden and the other neutral nations. Sweden tried to defend itself against this gold inflation by virtually stopping the free coinage of gold, and to that extent she prevented an increase in prices, but in this country prices of wholesale commodities went up about 81 per cent, and of retail commodities about 47 per cent. Now the price level will go up by leaps and bounds as long as this war lasts, to the extent that we falsely finance the war, to the extent that our subscriptions to liberty bonds are fakes—not out of real savings or not followed up, at least, by real savings; and when we increase prices then we enforce saving by the poor, and the war will be financed then by the wage-earner, or more particularly by the salaried man, such as the school teacher, as well as the bondholder

and all those who have fixed money incomes. Their money incomes buy less, and, therefore, they will have to go without, because prices being so high and the number of dollars they have to spend being the same, they will not be able to purchase as much as before. Thus they will be forced to sacrifice.

So we see that, in the end, somebody has got to sacrifice any way. It is only a question of whether we are going to do it when we subscribe to liberty bonds or whether we are going to force somebody else to do it for us by the way in which we do subscribe. There is only one way properly to subscribe to liberty bonds or to pay our taxes and that is to earn the money, to save it, to increase the margin between our income and our outgo. There is an enormous possible margin. David Friday has made the best estimate that I know of, and he estimates that there were in 1917 \$11,000,000,000 of liquid savings in this country—savings that could be put in any form desired—thrown into liberty bonds, besides which \$7,000,000,000, that were not liquid but more or less preëmpted—invested in necessary equipment whatever it might be, making a total volume in savings in 1917 of \$18,000,000,000. Of course, no one knows exactly, but David Friday has made the most careful estimate that we have, and that is his result. We must increase this \$11,000,000,000, because we are spending more than \$11,000,000,000 a year, and all our liquid savings we must put in liberty bonds or thrift stamps or in the war taxes, or in some other patriotic way. Otherwise we are not really properly financing this war, and to the extent that it is financed out of the high cost of living, it is going to create great discontent, and among other things discontent with the war.

Discontent with the war and the German propaganda to undo the morale of this country as in Russia, we must be aware of in this country. One reason, but not the only one, why Russia was so easy a prey to this propaganda was that she financed the war on a false basis. Prices were five to eight times what they were at the beginning of the war, and naturally the Russian people were not very enthusiastic over the effect of the war on the cost of living.

There is another fallacy that is very common besides this "business as usual" fallacy, that is going about in the place of thrift, and that is the idea that we can put off the payment of this war on to posterity. Some people think if they subscribe to bonds they are

making posterity pay. It is ordinarily supposed that the distinction between loans and taxes is just that between paying today and paying later. That is not the case at all. We pay for this war now. We cannot provide shoes and guns and other supplies for the soldiers, today from posterity. The cost has to be produced today in terms of goods. It is perfectly obvious that the cost of the war in guns, food and clothes, is a cost today, because if we should wait for posterity to make the shoes and the guns, the soldiers today would not have any foot wear or any means of firing off their cartridges.

The same is true in terms of money. No one will dispute this when we are talking of taxes, but many dispute it when talking of loans. Probably nine people out of ten in this country are under the impression that when the government goes into debt we are simply postponing the payment. So far as the government budget is concerned, that is true, but so far as the nation is concerned it is not true, providing the bonds are held in this country, as they are for the most part. When posterity pays off those bonds it does not pay this generation. It pays itself. It has to tax itself in order to pay itself, and if the subscriptions were ideally distributed, what would happen would be simply that I would have to take out of one pocket a thousand dollars of taxes, give it over to the government, and then the government would give me that thousand dollars and I would put it in the other pocket as payment for the principal of my bonds. Evidently it would amount to the same thing if we simply repudiated the debt, and then I would have taken my money out of one pocket and have put it in the other pocket without having it go through the government treasury at all.

It is very clear that when posterity pays itself it is not making any sacrifice. You might just as well talk in terms of the credits instead of debits involved. You might just as well say that by issuing bonds today, instead of saddling posterity with a huge debt, you are enriching posterity, because posterity is going to get the principal when these bonds are paid. It is exactly as broad as it is long. The only difference comes in the distribution. There will be many who in posterity will take out of one pocket more than they will get to put in the other pocket because their taxes will exceed the bonds that they hold, and the same thing the other way around. It has happened in the past, for instance, that the rich who run the government would buy the bonds and then in posterity

would tax the poor, and the result would be that in posterity, the rich would be living on the poor. Today it is almost the other way around. As we are distributing the bonds very widely the poor who subscribe are becoming creditors and, in the future, through big income taxes, it will not be at all surprising to find the rich ones paying the poor.

One difference in paying for the war in taxes and paying for the war in loans is this—when you get a tax receipt you have not a negotiable instrument but when you get a bond receipt for payment to the government you have something that you can use as collateral security at the bank, because a bond dissects out your future right to payment but does not dissect your future burden to pay, making a bond a one-sided instrument. You can use it as collateral security for a loan. Germany has financed the war almost wholly by bonds. That is bad finance for several reasons, but particularly because it tends to encourage the use of these bonds as collateral security for debts and make people less thrifty and more willing to borrow in order to lend.

One other fallacy that I might mention is the idea that if you buy a bond today and then pass it along to someone else tomorrow, say to buy a suit of clothes with it, you have done your full duty. Some merchants advertise the fact that they accept liberty bonds and much is made of the fact that liberty bonds are very salable. It is all right to lay stress on the fact that they are salable but it is all wrong to sell them unless you have to. It is a comfort to know when you buy a liberty bond, that if, later, you get in a tight place, you can sell the bond and get full value for it immediately. Nevertheless, when you encourage the sale of bonds you are fighting the idea of thrift, which is the basic idea of finance. What good does it do the government if I lend it a thousand dollars today and get a liberty bond and then tomorrow sell that bond to someone else for a thousand dollars? I simply carried it for one day and the other person who bought it of me might just as well have subscribed for it in the beginning! He is the one carrying the burden and not I. If we do our full duty we must not only subscribe and not only save in order to make good our subscription, but we must hold the bond to the end of the war.

The upshot of the whole matter is, therefore, that our real part in financing the war is good old-fashioned thrift or saving.